

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**PRICING OF DELIVERY ORDERS ISSUED UNDER
BASIC ORDERING AGREEMENT DAAJ09-85-G-A025,
GENERAL ELECTRIC COMPANY-AIRCRAFT ENGINE
BUSINESS GROUP**

Report Number 91-087

June 5, 1991

20000727 053

Department of Defense

DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

DTIC QUALITY INSPECTED 4

ARI00-10-3015



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

June 5, 1991

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(FINANCIAL MANAGEMENT)

SUBJECT: Report on the Audit of Pricing of Delivery Orders
Issued Under Basic Ordering Agreement DAAJ09-85-G-A025,
General Electric Company-Aircraft Engine Business
Group (Report No. 91-087)

This is our final report on the audit of contract pricing made at the General Electric Company - Aircraft Engine Business Group from June to August 1988 for your information and use. The objectives were to determine whether Basic Ordering Agreement DAAJ09-85-G-A025, Delivery Orders 0106 and 0124, awarded to General Electric Company by the U.S. Army Aviation Systems Command, in the amounts of \$143,513 and \$507,709 respectively, were overpriced and the reasons for the overpricing. Based on Army comments to the draft of this report, we expanded our review to include a total of 55 delivery orders issued under the basic ordering agreement through March 31, 1986. We did not evaluate internal controls in this audit. The audit was performed as a result of conditions identified during the "Audit of Spare Parts Pricing Agreements," Project No. 8CE-5001.

The audit verified that overpricing occurred on Basic Ordering Agreement DAAJ09-85-G-A025 because the unit prices included in orders issued under the agreement were not the most current unit prices negotiated prior to the order dates. Results of the audit are summarized in the following paragraph, and the details, audit recommendations, and management comments are in Part II of this report.

The U.S. Army Aviation Systems Command issued 28 delivery orders to the General Electric Company that did not include the latest prices for the parts purchased. As a result, the delivery orders were overpriced by \$124,696. In addition, we calculated net overpayments of \$22,509 on 27 additional delivery orders issued from February 16, 1986, through March 31, 1986. We recommended that the Commander, U.S. Army Aviation Systems Command request a voluntary refund of the overpricing and initiate action to recover the overpayments from the General Electric Company (page 3).


A draft report, covering the two delivery orders initially audited, was sent to the Assistant Secretary of the Army (Financial Management) on January 30, 1991. The Director, U.S. Army Contracting Support Agency nonconcurred with the finding and recommendation. The Director noted that he could not support our finding of overpricing on Delivery Orders 0106 and 0124 because a

new price list became effective after the date the delivery orders were issued. Additionally, the Army noted that the old price list was extended to remain effective through February 15, 1986, and that all orders issued through that effective date would have to be reviewed to determine the net effect (overpricing or underpricing) of the new price list. The complete text of the comments is in Appendix E.

Based on the comments, we calculated the net effect of using the new price list on a total of 28 orders issued through February 15, 1986, and found net overpricing of \$124,696. We also found that 27 orders issued between February 15, 1986, and March 31, 1986, did not incorporate the new prices and resulted in net overpayments of \$22,509. We request that the Army reconsider its comments regarding a voluntary refund of the revised amount of overpricing. Also, we have added a recommendation that the Army initiate action to recover the net overpayments. In accordance with DoD Directive 7650.3, we request that Army provide final comments on the recommendations, including the proposed corrective actions and completion dates by August 7, 1991.

We believe that our revised amount of monetary benefits of \$147,204 are valid for reasons discussed in Part II of the report; therefore, we ask that management provide final comments on the estimated monetary benefits described in Appendix D. Monetary benefits are subject to mediation in the event of nonconcurrence or failure to comment.

We appreciate the courtesies extended to the staff during the audit. If you have any questions on this audit, please contact Mr. Salvatore D. Guli, Program Director, at (703) 614-6285 (DSN 224-6285). This office will be available to assist the contracting officer in the collection of the recommended contract price adjustment. A list of the audit team members is at Appendix G. Appendix H lists the distribution of this report.


Edward R. Jones
Deputy Assistant Inspector General
for Auditing

cc: Secretary of the Army

REPORT ON THE AUDIT OF PRICING OF DELIVERY ORDERS ISSUED
UNDER BASIC ORDERING AGREEMENT DAAJ09-85-G-A025,
GENERAL ELECTRIC COMPANY-AIRCRAFT ENGINE BUSINESS GROUP

TABLE OF CONTENTS

	<u>Page</u>
TRANSMITTAL MEMORANDUM/EXECUTIVE SUMMARY	i
PART I - INTRODUCTION	1
Background	1
Objectives and Scope	1
Prior Audit Coverage	2
PART II - FINDING AND RECOMMENDATIONS	
Pricing of Delivery Orders Issued Under Basic Ordering Agreement DAAJ09-85-G-A025	3
APPENDIX A - Chronology of Significant Events	7
APPENDIX B - Computation of Delivery Order Prices for Delivery Orders Issued Between November 2, 1985, on Basic Ordering Agreement DAAJ09-85-G-A025, Based on Revised Catalog Prices	9
APPENDIX C - Computation of Delivery Order Prices for Delivery Orders Issued Between February 16, 1986, and March 31, 1986, on Basic Ordering Agreement DAAJ09-85-G-A025, Based on Revised Catalog Prices	13
APPENDIX D - Potential Monetary and Other Benefits	17
APPENDIX E - Department of the Army Comments	19
APPENDIX F - Activities Visited or Contacted	25
APPENDIX G - List of Audit Team Members	27
APPENDIX H - Final Report Distribution	29

Prepared by:
Contract Management Directorate
Project 8CE-5001.02

REPORT ON THE AUDIT OF PRICING OF DELIVERY ORDERS ISSUED
UNDER BASIC ORDERING AGREEMENT DAAJ09-85-G-A025,
GENERAL ELECTRIC COMPANY-AIRCRAFT ENGINE BUSINESS GROUP

PART I - INTRODUCTION

Background

During our evaluation of contractor performance on the "Audit of Spare Parts Pricing Agreements," Project 8CE-5001, the General Electric Company was not providing certified cost or pricing data when orders, exceeding the threshold for such data, were issued against a Basic Ordering Agreement (BOA) that contained previously certified unit price lists. As a result, we made an audit of the pricing of BOA DAAJ09-85-G-A025, Delivery Orders 0106 and 0124, to determine whether unit prices were based on current, accurate, and complete pricing data in effect at the time the orders were issued and whether the orders were overpriced.

A BOA is not a contract but an agreement in which individual orders normally are negotiated when issued. In the prepriced BOA, a price list is negotiated at the time the agreement is negotiated and the price list is incorporated into the BOA. This hybrid form of contracting is not specifically covered in the Federal Acquisition Regulation. Overpricing can occur in a prepriced BOA because the agreement may not include prices for economic order quantities, is usually not adjusted for accounting changes that occur during the life of the agreement, and may include preset multiyear pricing arrangements that contribute to overpricing.

The General Electric Company had sales surpassing \$42 billion in 1989. The Aircraft Engine Business Group, the largest operating element of the company, serves a broad range of customers, but is primarily involved in the manufacture of aircraft engines, spare parts, and research and development for the U.S. Government. General Electric Company sales to the U.S. Government were approximately \$6.0 and 5.9 billion for 1988 and 1989, respectively.

Criteria used to determine overpricing were Public Law 87-653, "Truth in Negotiations Act"; Public Law 91-379, "Cost Accounting Standards"; the Federal Acquisition Regulation, and the Defense Federal Acquisition Regulation Supplement (DFARS). In the absence of a contractual remedy for overpricing, the DFARS, subpart 242.71, "Voluntary Refunds," provides guidelines for requesting voluntary refunds for contract overpricing.

Objectives and Scope

Our objectives were to determine whether Basic Ordering Agreement DAAJ09-85-G-A025, Delivery Orders 0106 and 0124, awarded to the General Electric Company, were overpriced and the reasons for

overpricing. Based on the Army's comments to the draft of this report, we expanded the scope to include a total of 55 delivery orders issued through March 31, 1986, under the BOA. We reviewed contractor proposals to the Army, Government contract documents, Defense Contract Audit Agency preaward audit reports, Naval Plant Representative Office cost and pricing analysis reports, Government price negotiation memorandums, and contractor accounting records. The documents and records we reviewed related to events that occurred from November 2, 1985, through March 31, 1986. Appendix A lists the complete chronology of significant events.

This performance audit was performed from June to August 1988, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, Department of Defense. We did not evaluate the internal controls applicable to the pricing of delivery orders during this audit. Activities visited or contacted during the audit are listed in Appendix F.

Prior Audit Coverage

The Defense Contract Audit Agency performed 79 defective pricing reviews at the Aircraft Engine Business Group Plant in Lynn, Massachusetts from June 1983 through June 1987. Forty reviews resulted in positive findings of \$29.9 million in defective pricing.

PART II - FINDING AND RECOMMENDATION

Pricing of Delivery Orders Issued Under Basic Ordering Agreement DAAJ09-85-G-A025,

FINDING

The U.S. Army Aviation Systems Command issued 55 delivery orders to the General Electric Company under Basic Ordering Agreement DAAJ09-85-G-A025, which did not include current prices for the parts purchased. The Government and the contractor used the former unit prices to price the delivery orders even though new prices were negotiated prior to the issuance of the orders. As a result, there was net overpricing of \$124,696 on 28 delivery orders and net overpayments of \$22,509 on the other 27 delivery orders.

DISCUSSION OF DETAILS

Background. The U.S. Army Aviation Systems Command (AVSCOM) issued 55 delivery orders under Basic Ordering Agreement DAAJ09-85-G-A025, to the General Electric Company-Aircraft Engine Business Group between November 2, 1985, and March 31, 1986. The orders were for the procurement of various spare parts used to support the T-700 aircraft engine. AVSCOM and General Electric completed negotiations for the T-700 aircraft engine and spare parts catalog on November 2, 1985, the date the contractor certified the unit pricing of spare part line items. The cost basis for revising spare parts unit prices was established in this negotiation.

Details of the Audit. The draft report stated that two Delivery Orders, 0106 and 0124, were overpriced by \$180,577. Based on the Army's comments to the draft report, we evaluated additional delivery orders, broken down into two time periods.

The first time period involved 28 delivery orders issued between November 2, 1985, the date negotiations were completed and February 15, 1986, the extended effective date of the old price list. The Army also noted that the new price list became effective January 26, 1986. Appendix B shows that the 28 delivery orders were overpriced by a net amount of \$124,696 when computed with the revised price list prices. Since there is no contractual remedy to recover the overpricing, we believe it is fair and equitable to request a voluntary refund. The Defense Federal Acquisition Regulation Supplement, subpart 242.71, "Voluntary Refunds," provides guidelines for requesting voluntary refunds from a contractor when it is considered that the Government was overcharged under a contract.

The second time period involved 27 delivery orders issued from February 16, 1986, through March 31, 1986. Appendix C shows that the Army incurred overpayments of \$22,509 because new price list

prices were not used to price the delivery orders. Recovery of overpayments can be made through offsets against money due the contractor on Basic Ordering Agreement DAAJ09-85-G-A025 or under Federal Acquisition Regulation debt collection procedures.

RECOMMENDATIONS FOR CORRECTIVE ACTION

Based on further evaluation of management's comments to the draft of this report, we amended the recommended amount of the voluntary refund and added the recovery of overpayments.

We recommend that the Commander, U.S. Army Aviation Systems Command,

1. Request a voluntary refund of \$124,696 from the General Electric Company, on Basic Ordering Agreement DAAJ09-85-G-A025, for delivery orders listed in Appendix B, pursuant to Defense Federal Acquisition Regulation Supplement, subpart 242.71, "Voluntary Refunds."

2. Initiate action to recover net overpayments of \$22,509 on Basic Ordering Agreement DAAJ09-85-G-A025, for delivery orders listed in Appendix C.

MANAGEMENT COMMENTS

The Director, U.S. Army Contracting Support Agency nonconcurred with the draft report finding and recommendation. The Director noted that he could not support our finding of overpricing on Delivery Orders 0106 and 0124 because a new price list became effective after the date the delivery orders were issued. Additionally, he noted that the old price list was extended to remain effective through February 15, 1986, and that all orders issued through that date would have to be reviewed to determine the net effect (overpricing and underpricing) of the new price list. The complete text of the Army comments is in Appendix E.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

Even though the old price list was extended to February 15, 1986, we believe that the price for orders issued under Basic Ordering Agreement DAAJ09-85-G-A025 should have been based on the date that price agreement was reached, November 2, 1985. There is sufficient cause, in terms of equity and fairness, to request a voluntary refund of overpricing. We agreed with the Army's comment that all orders should be considered if such a request were to be considered. Accordingly, we calculated the net effect of overpricing and underpricing on 28 delivery orders issued within the period November 2, 1985, through February 15, 1986. Appendix B shows net overpricing of \$124,696.04. Our audit files also included data on all orders issued through March 31, 1986. Therefore, we evaluated the basis for pricing 27 additional orders issued between February 16 and March 31, 1986, and found

that the new price list was not used on these 27 orders. We found net overpayments of \$22,508.69 as shown in Appendix C. Based on the above evaluation, we revised the recommended amount of overpricing from \$180,577.00 shown in the draft report to \$124,696.04 and added a recommendation to initiate action to recover overpayments of \$22,508.69. We ask that the Army reconsider its response to the final report in view of the additional information and added recommendation.

This page was left out of original document

CHRONOLOGY OF SIGNIFICANT EVENTS

<u>EVENT</u>	<u>DATE</u>
Basic Ordering Agreement DAAJ09-85-G-A025	October 26, 1984
Initial Pricing Proposal for T-700 Spare Parts Submitted by General Electric Company for Basic Ordering Agreement DAAJ09-85-G-A025	January 23, 1985
Update of Initial Proposal	April 1985
Update of Initial Proposal for Supplemental Parts	June 1985
Spare Part Negotiations Conducted	October 30-November 2, 1985
Negotiations Completed and Certificate Of Current Cost Or Pricing Data Signed	November 2, 1985
Delivery Order 0106 Issued	December 18, 1985
Delivery Order 0124 Issued	January 6, 1986
Revised Price List Issued	January 26, 1986
Old Price List Extension Date	February 15, 1986

This page was left out of original document

COMPUTATION OF DELIVERY ORDER PRICES FOR DELIVERY ORDERS ISSUED BETWEEN
NOVEMBER 2, 1985, AND FEBRUARY 15, 1986, ON BASIC ORDERING AGREEMENT
DAAJ09-85-G-A025, BASED ON REVISED CATALOG PRICES

Delivery Order Number	Date	Quantity	Unit Price Based On Old Price List	Delivery Order Price Extended Amount	Revised Catalog Unit Price 1/	Extended Amount Based On Revised Catalog	Difference Between Old and New Prices Extended Amount
190	Dec 17, 1985	49	\$ 288.10	\$ 14,116.90	\$ 2/	\$ 2/	\$ 0
106	Dec 18, 1985	12	11,959.44	143,513.28	8,919.76	107,037.12	36,476.16
153	Dec 18, 1985	300	90.73	27,219.00	86.47	25,941.00	1,278.00
183	Jan 02, 1986	15	2,073.93	31,108.95	1 @ 2,437.60 14 @ 2,360.53	35,485.02	(4,376.07)
200	Jan 02, 1986	8	24,333.16	194,665.28	28,518.40	228,147.20	(33,481.92)
212	Jan 02, 1986	355	18.39	6,528.45	2/	2/	0
212	Jan 02, 1986	136	16.33	2,220.88	36 @ 16.59 100 @ 16.98	2,295.24	(74.36)
213	Jan 02, 1986	50	85.69	4,284.50	2/	2/	0
213	Jan 02, 1986	21	204.83	4,301.43	186.58	3,918.18	383.25
214	Jan 02, 1986	9	452.16	4,069.44	2/	2/	0
214	Jan 02, 1986	3	233.93	701.79	2/	2/	0
214	Jan 02, 1986	108	22.94	2,477.52	10.51	1,135.08	1,342.44
216	Jan 02, 1986	5	1,418.80	7094.00	2/	2/	0
217	Jan 02, 1986	11	47.86	526.46	47.90	526.90	(.44)
217	Jan 02, 1986	23	5.40	124.20	3.36	77.28	46.92
217	Jan 02, 1986	198	4.35	861.30	95 @ 3.26 103 @ 3.44	664.02	197.28
217	Jan 02, 1986	584	1.76	1,027.84	1.76	1,027.84	0

See footnotes at end of appendix

COMPUTATION OF DELIVERY ORDER PRICES FOR DELIVERY ORDERS ISSUED BETWEEN
NOVEMBER 2, 1985, AND FEBRUARY 15, 1986, ON BASIC ORDERING AGREEMENT
DAAJ09-85-G-A025, BASED ON REVISED CATALOG PRICES

Delivery Order Number	Date	Quantity	Unit Price Based On Old Price List	Delivery Order Price Extended Amount	Revised Catalog Unit Price 1/	Extended Amount Based On Revised Catalog	Difference Between Old and New Prices Extended Amount
218	Jan 02, 1986	25	\$ 79.66	\$ 1,991.50	\$ 5 @ 71.42 20 @ 74.44	\$ 1,845.90	\$ 145.60
218	Jan 02, 1986	1013	3.31	3,353.03	2.28	2,309.64	1,043.39
218	Jan 02, 1986	650	.70	455.00	2/	2/	0
182	Jan 03, 1986	5	16,139.50	80,697.50	14,775.00	73,875.00	6,822.50
187	Jan 03, 1986	4	11,683.59	46,734.36	10,966.01	43,864.04	2,870.32
188	Jan 03, 1986	3	21,129.63	63,388.89	2/	2/	0
215	Jan 03, 1986	24	351.12	8,426.88	360.31	8,647.44	(220.56)
124	Jan 06, 1986	602	843.37	507,708.74	293 @ 606.00 309 @ 604.00	364,194.00	143,514.74
192	Jan 06, 1986	31	2,460.76	76,283.56	4 @ 2,829.87 27 @ 3,206.71	97,900.65	(21,617.09)
195	Jan 06, 1986	20	20,356.91	407,138.20	2/	2/	0
195	Jan 06, 1986	19	20,356.91	386,781.29	2/	2/	0
196	Jan 06, 1986	15	5,450.09	81,751.35	14 @ 4,965.69 1 @ 5,156.38	74,676.04	7,075.31
205	Jan 06, 1986	15	27,380.30	410,704.50	29,781.19	446,717.85	(36,013.35)
206	Jan 08, 1986	17	5,347.81	90,912.77	5,419.06	92,124.02	(1,211.25)

See footnotes at end of appendix

COMPUTATION OF DELIVERY ORDER PRICES FOR DELIVERY ORDERS ISSUED BETWEEN
NOVEMBER 2, 1985, AND FEBRUARY 15, 1986, ON BASIC ORDERING AGREEMENT
DAAJ09-85-G-A025, BASED ON REVISED CATALOG PRICES

Delivery Order Number	Date	Quantity	Unit Price Based On Old Price List	Delivery Order Price Extended Amount	Revised Catalog Unit Price 1/ 10 @ 3,886.45	Extended Amount Based On Revised Catalog	Difference Between Old and New Prices Extended Amount
189	Feb 12, 1986	11	\$ 4,976.49	\$ 54,741.39	\$ 1 @ 3,741.74 10 @ 3,886.45	\$ 42,606.24	\$ 12,135.15
211	Feb 12, 1986	12	1,084.44	13,013.28	671.62	8,059.44	4,953.84
224	Feb 12, 1986	737	1.36	1,002.32	400 @ 1.46 337 @ 1.55	1,106.35	(104.03)
231	Feb 12, 1986	535	4.35	2,327.25	131 @ 3.44 404 @ 3.68	1,937.36	389.89
232	Feb 12, 1986	18	514.37	9,258.66	10 @ 376.65 8 @ 401.09	6,975.22	2,283.44
233	Feb 12, 1986	1884	2.88	5,425.92	1284 @ 2.53 600 @ 2.66	4,844.52	581.40
234	Feb 12, 1986	46	5.40	248.40	3.36	154.56	93.84
234	Feb 12, 1986	36	57.41	2,066.76	52.92	1,905.12	161.64
						Net Overpricing	\$ 124,696.04

- 1/ Revised catalog unit price applied to quantities delivered in 1986, 1987, and 1988.
2/ Not found in revised catalog.

This page was left out of original document

COMPUTATION OF DELIVERY ORDER PRICES FOR DELIVERY ORDERS ISSUED BETWEEN
FEBRUARY 16, 1986, AND MARCH 31, 1986, ON BASIC ORDERING AGREEMENT
DAAJ09-85-G-A025, BASED ON REVISED CATALOG PRICES

Delivery Order Number	Date	Quantity	Unit Price Based On Old Price List	Delivery Order Price Extended Amount	Revised Catalog Unit Price 1/	Extended Amount Based On Revised Catalog	Difference Between Old and New Prices Extended Amount
248	Feb 27, 1986	82	\$ 4.05	\$ 332.10	\$ 2/	\$ 2/	\$ 0
252	Feb 27, 1986	72	54.61	3,931.92	16 @ 56 @	59.30 62.57	4,452.72 (520.80)
253	Feb 27, 1986	4350	.80	3,480.00	870 @ 3480 @	.81 .85	3,662.70 (182.70)
254	Feb 27, 1986	150	2.88	432.00		2.53	379.50
261	Feb 27, 1986	1115	.47	524.05	500 @ 615 @	.53 .56	609.40 (85.35)
261	Feb 27, 1986	1000	.50	500.00		.57	570.00
261	Feb 27, 1986	975	.53	516.75		.61	594.75
261	Feb 27, 1986	900	.56	504.00		.64	576.00
261	Feb 27, 1986	900	.59	531.00		.67	603.00
261	Feb 27, 1986	513	1.10	564.30		1.22	625.86
261	Feb 27, 1986	556	1.17	650.52		1.28	711.68
261	Feb 27, 1986	392	1.33	521.36		1.45	568.40
261	Feb 27, 1986	373	1.47	548.31	133 @ 240 @	1.54 1.63	596.02 (47.71)
263	Mar 05, 1986	142	46.81	6,647.02	80 @ 62 @	50.94 53.76	7,408.32 (761.30)

See footnotes at end of appendix

COMPUTATION OF DELIVERY ORDER PRICES FOR DELIVERY ORDERS ISSUED BETWEEN
FEBRUARY 16, 1986, AND MARCH 31, 1986, ON BASIC ORDERING AGREEMENT
DAAJ09-85-G-A025, BASED ON REVISED CATALOG PRICES

Delivery Order Number	Date	Quantity	Unit Price Based On Old Price List	Delivery Order Price Extended Amount	Revised Catalog Unit Price 1/	Extended Amount Based On Revised Catalog	Difference Between Old and New Prices Extended Amount
264	Mar 05, 1986	1060	\$ 1.23	\$ 1,303.80	\$ 479 @ 1.10 581 @ 1.16	\$ 1,200.86	\$ 102.94
265	Mar 05, 1986	400	4.64	1,856.00	5.34	2,136.00	(280.00)
266	Mar 05, 1986	3435	1.97	6,766.95	200 @ 2.01 2400 @ 2.11 835 @ 2.25	7,344.75	(577.80)
267	Mar 05, 1986	442	17.88	7,902.96	2/	2/	0
271	Mar 05, 1986	107	60.36	6,458.52	40 @ 55.07 67 @ 58.11	6,096.17	362.35
272	Mar 05, 1986	21	38.28	803.88	35.69	749.49	54.39
273	Mar 05, 1986	57	57.41	3,272.37	24 @ 52.92 33 @ 59.69	3,239.85	32.52
274	Mar 05, 1986	27	203.60	5,497.20	139.74	3,772.98	1,724.22
245	Mar 25, 1986	20	32.66	653.20	30.55	611.00	42.20
236	Mar 27, 1986	65	227.39	14,780.35	2/	2/	0
240	Mar 27, 1986	76	13.25	1,007.00	7.10	539.60	467.40
241	Mar 27, 1986	101	183.63	18,546.63	2 @ 151.77 99 @ 160.17	16,160.37	2,386.26

See footnotes at end of appendix

COMPUTATION OF DELIVERY ORDER PRICES FOR DELIVERY ORDERS ISSUED BETWEEN
FEBRUARY 16, 1986, AND MARCH 31, 1986, ON BASIC ORDERING AGREEMENT
DAAJ09-85-G-0025, BASED ON REVISED CATALOG PRICES

Delivery Order Number	Date	Quantity	Unit Price Based On Old Price List	Delivery Order Price Extended Amount	Revised Catalog Unit Price 1/	Extended Amount Based On Revised Catalog	Difference Between Old and New Prices Extended Amount
242	Mar 27, 1986	93	\$ 194.50	\$ 18,088.50	\$ 115.05	\$ 10,699.65	\$ 7,388.85
243	Mar 27, 1986	90	10.28	925.20	11.39	1,025.10	(99.90)
244	Mar 28, 1986	2193	3.31	7,258.83	1000 @ 2.28 1193 @ 2.40	5,143.20	2,115.63
246	Mar 28, 1986	158	3.21	507.18	2.97	469.26	37.92
247	Mar 28, 1986	3057	1.97	6,022.29	2.25	6,878.25	(855.96)
285	Mar 28, 1986	119	124.98	14,872.62	55 @ 95.49 64 @ 101.01	11,716.59	3,156.03
238	Mar 31, 1986	28	1,062.03	29,736.84	15 @ 747.24 13 @ 767.53	21,186.49	8,550.35
251	Mar 31, 1986	1829	10.30	18,838.70	1 @ 9.46 1248 @ 9.98 580 @ 10.66	18,647.31	191.39
301	Mar 31, 1986	22	73.28	1,612.16	2 @ 84.27 20 @ 86.33	1,895.14	(282.98)
						Net Overpayments	\$ 22,508.69

1/ Revised catalog unit price applied to quantities delivered in 1986, 1987, and 1988.
2/ Not found in revised catalog.

This page was left out of original document

POTENTIAL MONETARY AND OTHER BENEFITS

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
1. and 2.	Potential monetary benefit to be derived from a one-time voluntary refund in accordance with DFARS 242.71, "Voluntary Refunds," and collection of over-payments.	Request for voluntary refund of \$124,696.04 and collection of over-payments of \$22,508.69 initiated by the U.S. Army Aviation Systems Command. Monetary benefit classified as "funds put to better use."

This page was left out of original document



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
U.S. ARMY CONTRACTING SUPPORT AGENCY
8109 LEESBURG PIKE
FALLS CHURCH, VIRGINIA 22041-3201



4 APR 1991

REPLY TO
ATTENTION OF

SFRD-KP

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE, 400 ARMY NAVY DRIVE,
ARLINGTON, VIRGINIA 22202-2884

SUBJECT: Draft Report on the Audit of Pricing Basic Ordering
Agreement DAAJ09-85-G-A025, Delivery Orders 0106
and 0124, General Electric Company-Aircraft Engine
Business Group (Project No. 8CE-5001.02)

1. We reviewed subject draft report along with comments provided by the U.S. Army Aviation Systems Command (AVSCOM). Based on this review, we do not concur with the finding and recommendation set forth in the draft report. We support AVSCOM's position (enclosed). Our rationale follows.
2. At the time subject orders were issued, the price list used by AVSCOM was current and in effect. A new price list was expected to be negotiated in conjunction with negotiation of the T-700 Engine multi-year contract. However, negotiation of this new price list was delayed. Both the engine multi-year contract and the spares were included in a "bottom line" settlement on 2 November 1985. Spares, however, were not priced discretely. Rather, the negotiated settlement included a methodology which the parties would use to determine individual spares prices and develop the price list.
3. As a result of delays in developing the new price list, the Government and General Electric agreed on two separate occasions to extend the date through which the old price list would remain effective (31 December 1985 and 15 February 1986). This was necessary in order to meet spares requirements.
4. The new price list was finally completed and became effective on 26 January 1986. This date was subsequent to the dates subject orders were issued by the Government and accepted by the contractor. Therefore, we cannot support the DoDIG's finding of overpricing. Neither can we support the recommendation to solicit a voluntary refund.


SFRD-KP

SUBJECT: Draft Report on the Audit of Pricing of Basic
Ordering Agreement DAAJ09-85-G-A025, Delivery
Orders 0106 and 0124, General Electric
Company-Aircraft Engine Business Group (Project No.
8CE-5001.02)

5. In addition, AVSCOM stated that a comparison of the two price lists indicated that some spares prices increased while others decreased. To determine the net effect of using the old versus the new price lists, all orders issued between 2 November 1985 and 26 January 1986 would have to be reviewed.

6. The point of contact for this action is Thomas Colangelo, SFRD-KP, (703) 756-7564.

Enclosure


NICHOLAS R. HURST
Brigadier General, GS
Director, U.S. Army Contracting
Support Agency

CF:

SAIG-PA (Ms. Flanagan)
SARD-DER (Ms. Willey)
AMCIR-A (Mr. Kurzer)



DEPARTMENT OF THE ARMY
HEADQUARTERS, US ARMY AVIATION SYSTEMS COMMAND
4300 GOODFELLOW BOULEVARD, ST. LOUIS, MO 63126-1734

REPLY TO
ATTENTION OF

AMSAV-5 (36-2b)

20 March 1991

MEMORANDUM FOR Commander, U.S. Army Materiel Command,
ATTN: ANCIR-A, 5001 Eisenhower Avenue,
Alexandria, VA 22333-0001

SUBJECT: Command Comments to the Draft Department of Defense
Inspector General (DODIG) Report on the Audit of Pricing of
Basic Ordering Agreement DAAJ09-85-G-A025, Delivery Orders 0106
and 0124, General Electric Company-Aircraft Engine Business
Group (Project No. 8CE-5001.02) (AMC No. D8826-B) (AVSCOM
Project No. 04-0288-321)

1. Reference memorandum, HQ USAMC, ANCIR-A, 7 Feb 91, subject:
DODIG Draft Report, Pricing of Basic Ordering Agreement
DAAJ09-85-G-A025, Delivery Orders 0106 and 0124, General
Electric Company-Aircraft Business Group, Project 8CE-5001.02
(AMC No. D8826-B).

2. The AVSCOM comments on the subject draft report are
enclosed.

3. Point of contact for this action is Mr. Charles I. Horn,
AMSAV-5, DSN 693-3777 or Commercial (314) 263-3777.

Donald R. Williamson

DONALD R. WILLIAMSON
Major General, USA
Commanding

Enc1

COMMAND COMMENTS
DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT
AUDIT OF THE PRICING OF BASIC ORDERING AGREEMENT
DAAJ09-85-G-A025, DELIVERY ORDERS 0106 AND 0124,
GENERAL ELECTRIC COMPANY-AIRCRAFT ENGINE BUSINESS GROUP
(AVSCOM PROJECT NO. 04-0288-321)

Finding and Recommendations--Pricing of Basic Ordering Agreement
DAAJ09-85-G-A025, Delivery Orders 0106 and 0124

Finding.

Delivery Orders 0106 and 0124, which were issued to the General Electric Company under Basic Ordering Agreement DAAJ09-85-G-A025, did not include current prices for the parts purchased. The former unit prices were used by the Government and the contractor to price Delivery Orders 0106 and 0124 even though new prices were negotiated by the Government and the contractor prior to the issuance of the orders. As a result, Delivery Orders 0106 and 0124 were overpriced by \$180,577.

Recommendation.

We recommend that the Commander, U.S. Army Aviation Systems Command, request a voluntary refund of \$180,577 from the General Electric Company, on Basic Ordering Agreement DAAJ09-85-G-A025, Delivery Orders, 0106 and 0124, pursuant to Defense Federal Acquisition Regulation Supplement, Subpart 242.71, "Voluntary Refunds."

Action Taken.

Nonconcur for the following reasons:

1. Section 242.7101 of the Department of Defense Supplement to the Federal Acquisition Regulation (DFARS) provides: "Voluntary refunds.... shall be requested only when it is considered that the Government was overcharged under the contract.... and retention by the contractor or subcontractor would be contrary to good conscience or equity."
2. The prices used on Delivery Orders 0106 and 0124 were taken from a price list incorporated into Basic Ordering Agreement DAAJ09-85-G-A025. By the terms of Modification P00001 to the BOA, the price list was to be effective through 31 December 1985. The date was subsequently extended to 15 February 1986 by Modification P00008 dated 7 December 1985. The subject Delivery Orders were signed by the Contracting Officer on 10 December 1985 and 31 December 1985, respectively, and sent to the contractor. General Electric accepted Delivery Order 0106 on 18 December 1985 and Delivery Order 0124 on 6 January 1986. By the terms of the BOA and its modifications the price list utilized was effective on the dates of issuance

3. The Government and General Electric Company had previously conducted, as part of the multi-year engine contract effort, negotiations to price a new spare parts catalog which would be effective during the succeeding calendar year. While negotiations on the total price of the new list were completed on 2 November 1985, using a "bottom line" approach with a general agreed to methodology for subsequently determining the price of individual items in the final catalog, the final prices for individual parts were not available until the completion of the pricing list and approval by the Government. The new pricing list was not available to the Contracting Officer until after the issuance of the subject delivery orders. According to the Draft Report, the new list was not issued until 26 January 1986. Both parties continued to utilize the prior parts catalog during the period in which the subject Delivery Orders were issued. A comparison of the old price list with the subsequent price list indicates the price of some items on the new list increased and others decreased.

4. As indicated above, in order to request a voluntary refund the agency must determine that it would be contrary to good conscience and equity for the contractor to retain the "overcharge". Under the circumstances outlined above, it does not appear contrary to good conscience and equity for the contractor to retain the price agreed upon between the parties under an existing price list pending the issuance of the successor price list.

This page was left out of original document

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics),
Washington, DC

Department of the Army

Assistant Secretary of the Army (Financial Management),
Washington, DC

U.S. Army Aviation Systems Command, St. Louis, MO

Department of the Navy

U.S. Naval Plant Representatives Office, Lynn, MA

Other Defense Agencies

Defense Contract Audit Agency, Lynn, MA

Contractor

General Electric Company - Aircraft Engine Business Group,
Lynn, MA

This page was left out of original document

LIST OF AUDIT TEAM MEMBERS

David K. Steensma, Director, Contract Management Directorate
Salvatore Guli, Program Director
Bruce Burton, Project Manager
Orlando Yarborough, Auditor
Garry Hopper, Auditor

This page was left out of original document

FINAL REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Director of Defense Procurement
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Comptroller of the Army
Aviation Systems Command
Auditor General, U.S. Army Audit Agency

Defense Activities

Director, Defense Contract Audit Agency
Commanding Officer, Defense Plant Representative Office,
General Electric

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office,
NSIAD Technical Information Center

Congressional Committee:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

INTERNET DOCUMENT INFORMATION FORM

A. Report Title: Pricing of Delivery Orders Issued Under Basic Ordering Agreement DAAJ09-85-G-A025, General Electric Company-Aircraft Engine Business Group

B. DATE Report Downloaded From the Internet: 07/26/00

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ **Preparation Date** 07/26/00

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.